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25 Archbishop of San Francisco

26 UNITED STATES BANKRUPTCY COURT

27 NORTHERN DISTRICT OF CALIFORNIA, SAN FRANCISCO DIVISION

28 In re Case No. 23-30564

29 THE ROMAN CATHOLIC ARCHBISHOP
30 OF SAN FRANCISCO,

31 Debtor and
32 Debtor in Possession.

33 Chapter 11

34 **DECLARATION OF JOSEPH J.
35 PASSARELLO IN SUPPORT OF
36 DEBTOR'S EMERGENCY MOTION FOR
37 INTERIM AND FINAL ORDERS**
38 **(1) AUTHORIZING CONTINUED USE OF
39 EXISTING CASH MANAGEMENT
40 SYSTEM, OPERATIONAL BANK
41 ACCOUNTS AND RELATED
42 INVESTMENT ACCOUNTS;**
43 **(2) AUTHORIZING MAINTENANCE OF
44 EXISTING BUSINESS FORMS,**
45 **(3) EXCUSING COMPLIANCE WITH
46 SECTION 345(b); (4) AUTHORIZING
47 CONTINUED USE OF CURRENT
48 INVESTMENT POLICY; AND**
49 **(5) SCHEDULING A FINAL HEARING**

1 Date: August 24, 2023
2 Time: 1:30 p.m.
3 Location: Via ZoomGov
4 Judge: Hon. Dennis Montali

5 *Hearing Requested on Shortened Time*

6 I, Joseph J. Passarello, hereby declare under penalty of perjury as follows:

7 1. I am the Chief Financial Officer (“CFO”) of The Roman Catholic Archbishop of San
8 Francisco, the debtor and debtor in possession herein (“RCASF” or the “Debtor”). I have been the
9 CFO of the RCASF since January 2014. Before that, I served as the CFO for several other
10 companies including Serena Software, Aptina Imaging, AMI Semiconductor, and Therma-Wave,
11 Inc. I have a Master of Business Administration from Santa Clara University and a Bachelor of
12 Science in Economics and Business Administration from St. Mary’s College. I am authorized to
13 provide this declaration (the “Declaration”) setting forth the general structure of the Debtor’s cash
14 management. In the course and scope of my duties as CFO, I am familiar with the record keeping
15 practices and policies of the RCASF and how it regularly maintains its business records.

16 2. I submit this Declaration in support of the *Debtor’s Emergency Motion for Interim*
17 and *Final Orders (1) Authorizing Continued Use of Existing Cash Management System,*
18 *Operational Bank Accounts and Related Investment Accounts; (2) Authorizing Maintenance of*
19 *Existing Business Forms, (3) Excusing Compliance With Section 345(b); (4) Authorizing Continued*
20 *Use of Current Investment Policy; and Scheduling a Final Hearing* (the “Motion”). I give
21 capitalized terms not otherwise defined in this Declaration the same meanings ascribed to them in
22 the Motion.

23 3. All facts set forth in this Declaration are based on my personal knowledge, upon
24 information supplied to me by people who report to me, upon information supplied to me by the
25 RCASF’s professionals and consultants, upon my review of relevant documents, or upon my opinion
26 based on my experience and knowledge regarding the RCASF’s operations, financial condition, and
27 related business issues. The documents submitted herewith, referenced herein or otherwise relied
28 upon by me for purposes of this Declaration are the business records of the RCASF, prepared and
maintained in the ordinary and regularly conducted business activity of the RCASF, and used by me

1 for those purposes. If I were called upon as a witness, I could and would testify competently to the
2 facts set forth herein, and I am authorized to submit this Declaration on behalf of the RCASF.

3 **A. Cash Management System**

4 4. The Debtor operates an intricate cash management system (the “Cash Management
5 System”), which is illustrated on Exhibit 2 of the Motion. The Debtor primarily uses its Cash
6 Management System to, among other things, receive (i) unrestricted gifts, bequests, and collections;
7 (ii) restricted donations including proceeds of the Archdiocesan Annual Appeal (the “AAA”); (iii)
8 payments for various insurance coverages paid by RCASF on behalf of other non-diocesan entities;
9 (iv) commercial rental income; (v) fees for administrative services to certain other Non-Debtor
10 Catholic Entities; (vi) investment income; and (vii) non-Chancery payroll funding on a pass-through
11 basis. Additionally, in the ordinary course of business, the RCASF is required to make the following
12 disbursements: (i) mission-driven disbursements; (ii) ordinary trade payables and operating
13 expenses; (iii) payroll; (iv) commercial insurance premiums; (v) employer portion of employee
14 benefits; (vi) Parish refunds in excess of the targets set pursuant to the AAA. The Debtor maintains
15 the following bank accounts (collectively, the “Bank Accounts” or individually, a “Bank Account”):

Identifying Schematic Number on Exhibit 2 ¹	Account Name	Balance as of July 31, 2023 (unless otherwise noted)
Bank Accounts at BofA		
1.	The Main Operating Account (#5250)	\$3,107,959
2.	Accounts Payable Checking Account (#0220)	\$388,344
3.	Investment Pool Checking Account (#4129)	\$900
4.	Chancery Payroll Account (#2233)	\$62,890
5.	Coordinated Payroll Account (#4287)	\$2,697,976
6.	Restricted Donations Account (#7083)	\$5,222,779

27 ¹ There are two accounts listed on the bank account schematic attached to the Motion as Exhibit 2
28 that are not listed here – the Segal Bryant (#8815) and the First Republic (#9117) accounts –
because the Debtor is closing those accounts post-petition.

Identifying Schematic Number on Exhibit 2 ¹	Account Name	Balance as of July 31, 2023 (unless otherwise noted)
Bank Accounts at Bank of SF		
7.	Interest Bearing Bank Account (#1486)	\$246,041
Bank Accounts at FRB		
8.	Interest Bearing Bank Account (#1534)	\$257,115
9.	Stock Transfer Account (#0589)	\$15,602
Imprest Accounts		
10.	Settlement Payment Imprest Account (#4577)	\$14,946
11.	Priest Medical Imprest Account (#8561)	\$48,397
12.	General Liability Imprest Account (#9479)	\$96,606
City National Bank Account		
13.	Workers' Comp Collateral (#9001)	\$75,816
U.S. Bank Investment Pool Account		
14.	Investment Pool Account (as of June 30, 2022)	\$104,737,665
BofA Securities Account		
15.	BofA Securities Account (#9371)	\$57,789,941

18 **1. Sources of Receipts**

19 **5. Unrestricted Gifts, Bequests, and Collections.** Throughout the year, Parishes
 20 solicit donations in the form of Second Collections for a variety of mission-driven programs,
 21 including Priestly Vocations, Human Life & Dignity, Pastoral Ministry, Missions Office, Faith
 22 Formation, Marriage & Family Life, Chinese Ministry, and the African American Ministry. These
 23 funds are forwarded from the Parishes to RCASF, which categorizes them as “Custodial,” indicating
 24 that they are set aside for a specific purpose and are held in a restricted bank account.

25 **6. Restricted Donations.** Periodically, donors make donations to the RCASF and
 26 Parishes in the form of marketable securities. Such securities are received into the FRB account
 27 (#0589), which is a brokerage account established and maintained specifically to liquidate donated
 28 securities. Once the securities are liquidated, cash proceeds are transferred into BofA restricted

1 checking account (#7083), and then transferred to the intended recipient, either the RCASF or a
2 Parish.

3 **7. Insurance Premium Payments.** The RCASF administers a health plan for its
4 employees and the employees of several non-Chancery entities (the “Participating Entities”) through
5 Reta Trust (“Reta”). The RCASF pays 100% of the premiums billed by Reta for its employees and
6 for the employees of the Participating Entities and then invoices the Participating Entities for their
7 respective premiums.

8 **8. Rental Income.** The RCASF receives approximately \$190,000 under monthly rental
9 or lease agreements. The following four rental properties account for approximately 80% of the
10 monthly rental income: (1) an office building occupied by a non-profit advocacy group; (2) a
11 commercial building occupied by a mattress retailer, a Toyota dealership and an electric vehicle
12 company; (3) an apartment rented to the RCASF’s communications director; and (4) a residential
13 structure located on the grounds of St. Patrick’s Seminary & University leased to Chesterton
14 Academy of St. James.

15 **9. Fees for Services.** The RCASF provides administrative services to certain Non-
16 Debtor Catholic Entities pursuant to service management agreements and similar arrangements. The
17 RCASF receives fees for these services, for which it bills the respective parties. For example, the
18 RCASF charges administrative fees for its administrative support provided by the Department of
19 Catholic Schools accounting, legal, human resources, and support for certain Non-Debtor Catholic
20 Entities. Additionally, the RCASF has an arrangement to charge a small administrative fee to
21 administer payroll for certain Non-Debtor Catholic Entities. The RCASF also charges a land use
22 fee to Holy Cross Cemetery and other Cemeteries.

23 **10. Non-Chancery Payroll.** The RCASF administers payroll for approximately 3,500
24 employees of Parishes and Schools. Employees are paid on up to two pay dates each month, the
25 15th and the last. All funds for payroll are pulled by ADP, the payroll processor, from the RCASF’s
26 Coordinated Payroll Account (#4287). In advance of each pay date, Parishes’ and Schools’ funds
27 are deposited into this account to meet each payroll funding obligation.

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1 2. **Main Sources of Disbursements**

2 11. **Mission Driven Disbursements.** The RCASF disburses proceeds to numerous
3 missions and related causes. These funds are raised via the AAA and occasional direct donations.

4 12. **Ordinary Accounts Payable.** In the ordinary course of business, the RCASF makes
5 disbursements to trade vendors, service providers, and employees for reimbursement of approved
6 expenses, and Wells Fargo debits this account as its credit card issuer.

7 13. **Payroll.** The RCASF processes payroll for its own employees. ADP draws the funds
8 from (#2233) Chancery Payroll Account via ACH to meet payroll and associated payroll and income
9 tax obligations. Additionally, the RCASF processes payroll for approximately 3,500 employees of
10 Parishes and Schools on a pass-through basis. This account is pre-funded by the respective
11 employers in advance of each pay date. ADP draws the funds from (#4287) (the Coordinated Payroll
12 Account via ACH to meet payroll and associated payroll and income tax obligations.

13 14. **Commercial Insurance Premiums.** As further discussed in the *Debtor's*
14 *Emergency Motion to Continue Insurance Programs* (the "Insurance Motion") filed concurrently
15 herewith, the RCASF maintains and administers certain commercial insurance coverages. It
16 administers the commercial insurance programs for certain Non-Debtor Catholic Entities and then
17 invoices premium amounts to such Non-Debtor Catholic Entities for the the Non-Debtor Catholic
18 Entities' allocation of the cost of the insurance policies program.

19 15. **Employee Benefits.** As further detailed in the *Debtor's Emergency Motion for*
20 *Order (1) Authorizing Payment of Prepetition Wages, Salaries, and Employee Expenses; (2) to Pay*
21 *Accrued Employee Benefits and Taxes; and (3) Directing Banks to Honor Payroll and Expense*
22 *Checks* filed concurrently herewith, the RCASF administers a health plan to provide its employees
23 and the employees of several Participating Entities with general medical, dental, and vision
24 insurance plans. Total premiums for the general healthcare benefits package are approximately \$2.3
25 million per month. The RCASF invoices premium amounts to the Non-Debtor Catholic Entities for
26 their employees' share of the premiums.

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1 **B. Investment Accounts**

2 16. The Chancery maintains several interest-bearing accounts to diversify its holdings
3 and yield the maximum reasonable net return on such money, taking into account the safety of such
4 deposit or investment. The Chancery office administers funds on behalf of itself and certain
5 Catholic entities in an investment pool account invested with fund managers in separate custodial
6 accounts at U.S. Bank. Investments held in the investment pool are categorized by the RCASF as
7 Designated, Restricted, Endowments, and Investments Held for Others. As of July 15, 2023, the
8 respective balances were approximately: Designated - \$61.4 million; Restricted - \$19.9 million;
9 and Endowments - \$18.7 million. Amounts held in trust for others, Contemplatives of St. Joseph
10 and St. Thomas More School, St. Patrick's Seminary totaled approximately \$2.6 million.

11 17. One of RCASF's investment accounts is BofA Securities account (#9371) (the
12 "BofA Investment Account"). Excess funds from the Main Operating Account (#5250) are
13 transferred to the BofA Investment Account where they are invested in BlackRock Liquidity Funds
14 Fed Fund Portfolio Institutional Class, which is a money market mutual fund that currently yields
15 approximately 5.2% of interest per year.

16 18. The Chancery also administers an Institutional Deposit & Loan fund solely on behalf
17 of its High Schools and certain institutions which are not equipped with the administrative staff to
18 oversee the accounts. Each depositor has its own account with Charles Schwab for its Deposit &
19 Loan deposits, which are kept segregated from the RCASF's accounts. These accounts are not listed
20 in the schematic because each account is owned by the respective depositor and not held under the
21 RCASF's name. The Debtor discloses such accounts out of an abundance of caution, but is not
22 seeking any additional relief with respect thereto other than authority to continue to operate its own
23 pooled account and oversee the other pooled accounts.

24 19. The RCASF has a Finance Council comprised of the Archbishop, Rev. Summerhays,
25 three priests, seven independent lay investment advisors (generally CPAs and attorneys), and me,
26 as CFO. The Finance Council historically met approximately eight times per year, but has met
27 monthly since October 2022. The Finance Council is responsible for advising on all matters of
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1 financial concern, and to provide consent to certain investment decisions, investment policy
2 statements, and financial actions in accordance with Canon Law. They are also responsible for
3 approving the annual budget.

4 20. The RCASF Investment Committee (the “Investment Committee”), a subset of the
5 Finance Council, is responsible to ensure that the RCASF is acting as a prudent investor and
6 investing in a diversified and balanced manner. The Investment Committee was established by the
7 Finance Council and consists of Rev. Summerhays, five lay professionals with strong investment
8 backgrounds, and me, as CFO. The Investment Committee meets at least quarterly (and more
9 frequently as necessary) to establish investment and asset allocation policies and to review
10 investment performance.

11 **C. Bank Accounts Related to the Debtor’s Cash Management System**

12 21. As of the Petition Date, the Debtor’s Cash Management System includes a total of
13 15 Bank Accounts, six of which are held with BofA, two with FRB, one with Bank of SF, one with
14 City National Bank, and three (the Imprest Accounts) held and managed by third parties
15 (collectively, the “Cash Management Banks”).

16 22. While FRB, Bank of SF, and CB&T, are not on the U.S. Trustee’s authorized list of
17 banking institutions, BofA, which holds the vast majority of the Debtor’s operating cash, is an
18 FDIC-insured banking institution that has complied with the United States special depository
19 procedures under Bankruptcy Code section 345 and is on the U.S. Trustee’s list of authorized
20 depositories for this district. Although FRB is not on the U.S. Trustee’s authorized list of
21 depositories, it is owned by JPMC, which is one of the most well-capitalized banks in the U.S., and
22 on the U.S. Trustee’s list of authorized depositories. Additionally, the Bank of SF is an FDIC-
23 insured institution, and the RCASF generally holds in its accounts at the Bank of SF at or less than
24 approximately \$250,000, which amount is the limit of FDIC insurance. Finally, while CB&T is
25 not on the U.S. Trustee’s authorized depository list, it is a division of Zions Bancorporation, N.A.,
26 which is FDIC-insured.

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1 23. In the ordinary course of business, the RCASF maintains the Bank Accounts to
2 facilitate the financial operations of its central administrative offices.

3 **D. Debtor's General Operating Accounts**

4 24. The RCASF maintains one main general operating checking account at BofA
5 (**#5250**) (the “Main Operating Account”). The Main Operating Account acts as the Debtor’s central
6 repository of funds. All unrestricted incoming deposits from the Parishes, donors and, lessees are
7 first deposited into this account and then money is transferred to other accounts and to fund
8 disbursements, as necessary.

9 25. In addition to the Main Operating Account, the RCASF maintains the following
10 accounts at BofA:

11 • An accounts payable account (**#0220**) (the “Accounts Payable Checking
12 Account”), from which all payments to trade vendors are paid. The RCASF transfers
13 money from the Main Operating Account to fund the Accounts Payable Disbursements
14 Account, as necessary.

15 • The investment pool checking account (**#4129**) (the “Investment Pool
16 Checking Account”), which the RCASF uses as a clearing account to move money
17 between the Main Operating Account and the Investment Pool Checking Account, for
18 internal tracking purposes.

19 • An account to fund Chancery payroll (**#2233**) (the “Chancery Payroll
20 Account”). The RCASF transfers funds from the Main Operating Account to the Chancery
21 Payroll Account and then transfers money from Chancery Payroll Account to ADP to fund
22 payroll.

23 • Account (**#4287**) is used to hold and fund payroll for the Non-Debtor
24 Catholic Entities such as Parishes and Schools (the “Coordinated Payroll Account”). The
25 Parishes and Schools prefund this account in advance of each payroll disbursement.

26 • The restricted donations account (**#7083**) (the “Restricted Donations
27 Account”) holds restricted funds such as AAA proceeds, donor restricted gifts, funds held

1 as a custodian for certain Non-Debtor Catholic Entities and funds that have been liquidated
2 from the Stock Transfer Account (as defined below) and other funds held in trust. FRB
3 liquidates the securities and the RCASF remits the proceeds to the intended beneficiary.

4 26. The RCASF maintains an interest earning account at the Bank of SF (#1486) (a
5 “Interest Bearing Account”) which earns modest interest. The Debtor keeps this account balance at
6 or around \$250,000 to ensure that it is within the FDIC insured amount range.

7 27. The RCASF maintains the following Bank Accounts at FRB:

8 • An interest-bearing account (#1534) where the RCASF transfers excess
9 cash from the Main Operating Account to earn modest interest.

10 • The FRB brokerage account (#0589) (“Stock Transfer Account”), a
11 restricted account, receives gifts of marketable securities. The RCASF then sends the
12 money from the restricted account to the Parishes or the RCASF to which the respective
13 donation was directed. As this account is effectively a clearing account that zeros out with
14 each transaction, no balance is recorded on the books and records of the RCASF.

15 28. The RCASF maintains the following accounts that are also funded through the Main
16 Operating Account, but held and managed by third parties (collectively, the “Imprest Accounts”):

17 • An account (#4577) (“Settlement Payments Imprest Account”) managed by
18 AJ Gallagher Insurance Brokers as signatories on the account, to make payments in
19 accordance with prior settlement agreements.

20 • An account (#8561) managed by UAS Benefit, which reimburses medical
21 costs incurred by retired priests not covered by general medical insurance (“Priest Medical
22 Imprest Account”).

23 • An account (#9479) managed by George Hills Company Inc. as third-party
24 administrator and signatory on the account, which is used to process general liability
25 claims (the “General Liability Imprest Account”).

1 29. The RCASF maintains account (#9001) at City National Bank (“Workers’ Comp
2 Collateral”), which serves as collateral and a funding source for workers’ compensation claims paid
3 out in connection with an old workman’s compensation policy(s).

4 30. Finally, the RCASF maintains a restricted account at U.S. Bank to hold assets of the
5 Lay SERP Plan, held by U.S. Bank as Trustee.

6 **E. Corporate Credit Card Program**

7 31. The RCASF uses corporate credit cards primarily to pay miscellaneous business
8 expenses incurred by the employees and employees working at the Chancery. There are roughly
9 25-30 credit cards in use at the Chancery, with about \$40,000 total monthly in credit card charges.
10 Each month, a cardholder receives a statement online, which gets reviewed and approved by their
11 supervisor. Once approved, Wells Fargo debits the RCASF account for the prior month’s credit
12 card charges around the 7th or 8th day of each month.

13 32. I am aware of the requirement under the Local Rule 2015-1(a) and UST Guideline
14 4.4.6 that, upon filing a petition for relief under chapter 11, the debtor must close its existing bank
15 accounts and open new debtor-in-possession accounts marked to show that the debtor is operating
16 as a debtor-in-possession. However, the Debtor believes it should be excused from this requirement
17 in this unique situation for the compelling reasons that complying with Local Rule 2015-1(a) and
18 UST Guideline 4.4.6 would be unduly costly, overly burdensome, not to the benefit of any party in
19 interest, and detrimental to the overall administration of the estate and creditors.

20 33. The Debtor’s Cash Management System is maintained in the ordinary course and is
21 essential to the Debtor’s ongoing operations. The Cash Management System provides significant
22 benefits to the Debtor, including, among other things, the ability to: (i) account properly for
23 restricted funds and funds held in trust; (ii) control funds; (iii) perform its duties under the Servicing
24 Agreements and arrangements; (iv) ensure the maximum availability of funds when necessary; (v)
25 maximize interest on deposit accounts by utilizing sweep accounts; (vi) reduce administrative
26 expenses and operational disruption by facilitating the movement of funds and the development of
27 more timely and accurate account balance information; (vii) continue accounting practices and
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1 operational procedures familiar to the Debtor's staff; and (viii) earn a modest amount of interest
2 through its Investment Accounts. As a practical matter, because of the Debtor's financial structure,
3 it would be extremely difficult and prohibitively expensive to establish and maintain a separate
4 postpetition cash management system.

5 34. The delay and disruption caused by closing the existing Bank Accounts and opening
6 new accounts would delay the Debtor's postpetition payment of its ordinary course expenses and
7 put a strain on the Debtor's relations with its accounting staff, the non-Debtor Catholic Entities
8 served by the Debtor under the Servicing Agreements and arrangements, donors, key suppliers, and
9 employees. By preserving continuity and avoiding the disruption and delay to the Debtor's activities
10 under the Servicing Agreements and arrangements, payroll obligations and ministries that would
11 necessarily result from closing the existing Bank Accounts and opening new accounts, all parties in
12 interest, including Non-Debtor Catholic Entities, employees, donors and vendors, will be best
13 served. Furthermore, the administrative burden of overseeing such a transition would place a
14 substantial burden on the Debtor's management and personnel at a critical time in this case. The
15 inevitable delays and confusion would further impede the Debtor's ability to pay operating expenses
16 in the ordinary course, potentially compromising relationships with Non-Debtor Catholic Entities,
17 donors, vendors, suppliers and employees. This could seriously jeopardize the Debtor's
18 reorganization efforts.

19 35. The Debtor requires the ability to continue to utilize its Cash Management System
20 so that it may continue its operations uninterrupted. The Debtor's Cash Management System is
21 maintained through well-established relationships at the various financial institutions and series of
22 related accounts which allow the Debtor to manage and control receipts and disbursements and to
23 account for all transactions.

24 36. Closing such accounts will delay the services provided by the Debtor under the
25 Servicing Agreement, payment of payroll and other ordinary course expenses, will increase the
26 cost of administration, impede the Debtor's efforts to continue to operate in the normal course of
27 business, potentially undermine the confidence of donors that their donated funds are being held in
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1 trust and used for the intended uses, and will be a significant distraction to the Debtor's
2 management and accounting staff.

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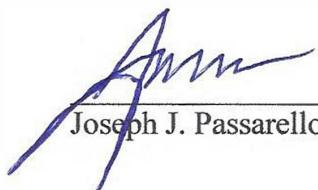
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1 I declare under penalty of perjury under the laws of the United States of America that the
2 foregoing is true and correct. Executed on this 19th day of August, 2023, at San Francisco,
3 California.

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6 Joseph J. Passarello
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